

# the quarter

newsletter of the pennsylvania department of banking and securities



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Office of the Secretary of Banking and Securities



## Opportunity and Threat:

By **Glenn E. Moyer**  
Secretary of Banking and Securities

In the past year during my travels across Pennsylvania to meet with financial services organizations and their representatives, people have asked me repeatedly about two issues that are challenging traditional business models: cybersecurity and the pace and direction of technology innovation.

[Learn more](#)



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### Corbett Signs Credit Union Bill

Gov. Tom Corbett signs the revisions to the Credit Union Code. HB 2009 was a joint effort of the PA Credit Union Association and the department, and provides a number of needed updates and clarifications to the Code that will benefit our state-chartered credit unions.

[Learn more](#)



### "Making \$ense of Finance"

**FREE** noncommercial conference held on November 8th in Philadelphia. The event is sponsored by the PA Military Finance Alliance, which helps with the unique challenges facing the military and veterans in financial and investment decisions. [Learn more](#)



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## Opportunity *and* Threat: Challenges to Traditional Financial Services Business Models

by **Glenn E. Moyer**, Secretary

In the past year during my travels across Pennsylvania to meet with financial services organizations and their representatives, people have asked me repeatedly about two issues that are challenging traditional business models: cybersecurity and the pace and direction of technology innovation.

When an economy begins its path to recovery, businesses typically switch from “survival mode” to identifying and implementing policies and practices that will allow them to “thrive” in a post-recession period. However, the financial services industries have additional challenges. Not only do they have to price and market their products competitively

to retain and attract customers, they have to deal with new kinds of opportunities and threats delivered by the Internet.

### Cybersecurity

Businesses are under attack or being targeted for attack in ways that I could not have imagined when I began my career in financial services more than 35 years ago. Cybersecurity has been recognized as “a” – if not “the” – top threat to the reputations and bottom-line interests of American businesses. According to the Center for Strategic and International Studies:

- Between \$375 billion to \$575 billion in global GDP is lost annually to cybercrime activities.
- An estimated two-thirds of one percent of the U.S.’ GDP consists of cybercrime. That represents about \$100 billion.
- Last year alone, 40 million people in the U.S. had personal information stolen.
- In 2013, more than 3,000 companies were notified by the U.S. government that they had been hacked.

I believe it is imperative that boards and executive managements are aware of the threats of potential cyber-attacks, understand their risks, and work within their institutions, as well as with service providers and peers, to ensure security and resilience of their institution in the face of increasingly sophisticated cyber threats.

### Technology Innovation

When I joined the Department in 2011, some financial innovations such as Bitcoin seemed more like something out of science fiction. In 2014 and beyond, several of these newer products promise to create new forms of competition – as well as opportunities – to traditional business practices.

**Bitcoin:** a recent national survey on Bitcoin and other virtual currencies (conducted by the Conference of State Bank Supervisors) found that a clear majority of respondents had heard of Bitcoin, though only 3% of respondents had purchased or used a virtual currency. *continued >*



On a more interesting note, 43% of 18-24 year old respondents said “very or somewhat likely” they will purchase Bitcoins, compared to 8% of those over 55. You can draw your own conclusions, but I think it is better to be “ahead of the curve” than behind it. And so we are actively working with the General Assembly to amend Pennsylvania’s Money Transmitter Act to create a regulatory structure for virtual currencies.

**Equity Crowdfunding:** we are still waiting for the federal Securities and Exchange Commission to finalize its rules on equity crowdfunding. In the meantime, several other states – Georgia, Kansas, Michigan, Alabama and Maine – have finalized their own rules and regulatory structures to enable intrastate equity crowdfunding. Reports cite a dozen other states working towards this goal, which will allow investors to participate in crowdfunded offerings in their own states. At this point in time, there is no movement in our General Assembly to follow suit, and I believe that we will be “waiting and seeing” what the SEC finally offers in the coming months.

**Peer-to-Peer Lending:** no peer-to-peer lender is licensed to offer loans or registered to solicit investors in Pennsylvania, but many people are following the progress of the Initial Public Offering (IPO) filed in August by Lending Club. According to Lending Club, since they first began making loans in 2007, they have financed more than \$5 billion worth of loans and paid nearly \$494 million in interest to investors in those loans. This relatively new way to move capital cannot be ignored.

**Payment Systems:** according to news reports, by the end of 2014 the Federal Reserve will issue a multiyear “road map” for a virtually real-time payment system. While consumers continue to use a variety of payment systems – Bitcoin, mobile payments like the recently announced Apple Pay, debit and credit cards, checks and cash – it will be hard to gauge the impact of a real-time system.

Our financial services industries have been excellent historically in responding to the threats and opportunities presented by changing consumer demands, product innovation and technology. I hope and expect Pennsylvania financial services businesses will continue to explore and implement new and innovative ways to protect themselves and their customers, and to make necessary and appropriate changes to their business models to thrive in this new economic era!

## Legal Bank Holidays for 2015 Announced

### Fixed Holidays

January 1 – New Year’s Day  
January 19 – Dr. Martin Luther King, Jr. Day  
May 25 – Memorial Day  
July 4 – Independence Day  
September 7 – Labor Day  
November 26 – Thanksgiving Day  
December 25 – Christmas Day

### Optional Holidays

February 12 – Lincoln’s Birthday  
February 16 – Washington’s Birthday  
April 3 – Good Friday  
June 14 – Flag Day  
October 12 – Columbus Day  
November 3 – Election Day  
November 11 – Veterans’ Day

- When a fixed holiday falls on a Sunday, it shall be observed on the following Monday; when it falls on a Saturday, it may also be observed on the following Monday.
- Independence Day, July 4, falls on a Saturday in 2015, therefore, institutions must be closed on July 4, and may also be closed the following Monday, July 6, 2015.
- Flag Day, June 14, falls on a Sunday in 2015. As an optional holiday, there is no provision in the Banking Code to observe Flag Day on an alternate day.



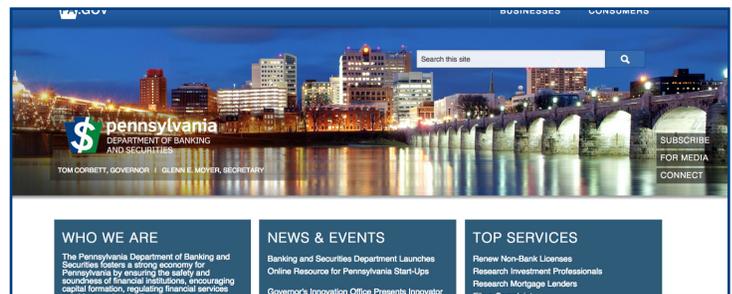
## Corbett Signs Credit Union Code Amendments

On June 18, Gov. Tom Corbett signed HB 2009, amending and updating the Credit Union Code; he was joined by bill sponsor Representative Lynda Schlegel Culver (seated, left) and PCUA President & CEO Patrick Conway (seated, right). Standing (l-r): PCUA VP, Governmental Affairs, Christina Mihalik; Andy Giorgione, Esq., Buchanan Ingersoll & Rooney; and Paul Wentzel, PA Department of Banking and Securities.

## New DoBS Agency Website Scheduled for Early December 2014

The previously announced launch of a new Department of Banking and Securities website has been scheduled for the evening of Friday, Dec. 5, 2014.

The website is using a “responsive” design that will work equally as well on desktops, laptops, tablets and mobile devices, including PC’s and Macs, Androids and iPhones. All bookmarks currently saved will have to be updated.



Licensees, registrants and chartered institutions can navigate for information following “Businesses” (upper right-hand corner); “Consumers” (upper right-hand corner) will provide information to the general public. Journalists can use the “For Media” quick link (lower right hand corner).

The department’s new website address will be: [www.dobs.pa.gov](http://www.dobs.pa.gov).



## Department Welcomes Credit Union to State Charter

The Department of Banking and Securities welcomes **Members Choice Financial Credit Union**, Montour County, which converted from a federal charter (operating as M-C Federal Credit Union) to a Pennsylvania state charter in the third quarter of 2014.



## Bank on Greater Pittsburgh Sets Goal of 3,000 New Accounts for Area Residents

Executives from several Pittsburgh-area banks, government officials and community leaders met earlier in August at the Federal Reserve Bank of Cleveland, Pittsburgh Branch to discuss ways to continue attracting consumers who have no traditional banking relationships to consider becoming active customers.

Their goal: 3,000 new checking and savings accounts. "The enormous, positive impact on families by possessing something as simple as a checking account is undeniable," said Secretary Glenn E. Moyer at the gathering. "Through efforts such as 'Bank On Greater Pittsburgh,' consumers will have more and better choices in how to conduct their financial affairs and plan for their futures.



*L-R: Joseph Ott, Federal Reserve Bank, Monique McIntosh, Urban League of Greater Pittsburgh, Dr. Howard B. Slaughter, Jr., Chairman, Bank On Greater Pittsburgh, Glenn E. Moyer, Esther L. Bush, Urban League of Greater Pittsburgh, Alan Trivilino, Urban League and Guhan Venkatu, Federal Reserve Bank.*

# PA **MILITARY** FINANCE ALLIANCE

## “Making \$ense of Finance”

**FREE** noncommercial conference to help with the unique challenges facing military and veterans in financial and investment decisions

**When:** Saturday, November 8<sup>th</sup> - 9:30 am to 3:30 pm  
Complimentary breakfast and lunch. **FREE** parking!

**Where:** Independence Seaport Museum  
211 South Columbus Blvd, Philadelphia

**Who:** **FREE** to military personnel, veterans and spouses

Register & choose workshop sessions at:

[www.dobs.state.pa.us](http://www.dobs.state.pa.us)

or call 717.705.2687

# CYBERsection



**SECURITY**

## Is Your Password Secure?

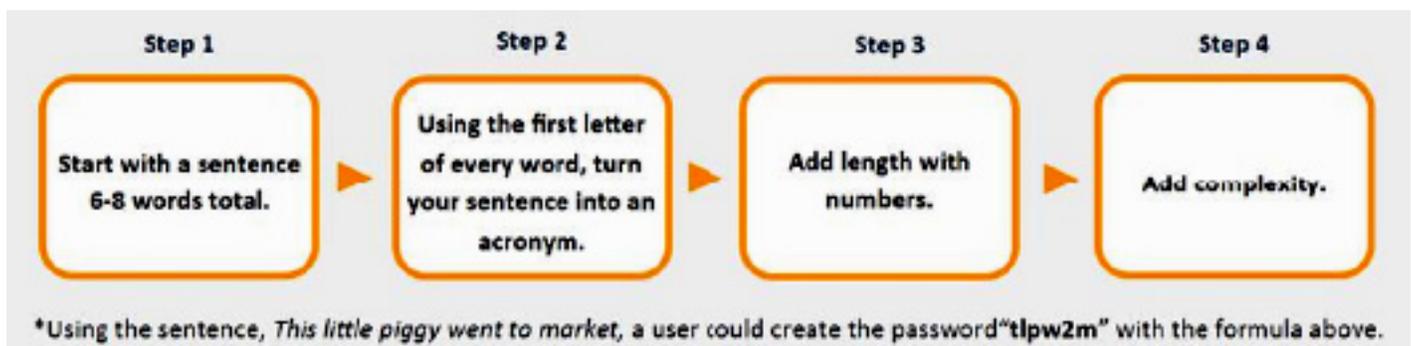
According to an annual study conducted by SplashData, the most commonly used password on the Internet in 2013 was "123456." This weak password stripped the longtime champion "password" for the number one spot on the list.

What makes a password secure? There are certain criteria that make a password harder to crack. When creating a password, try to use the following:

- It should be at least eight characters long.
- It should not contain your real name.
- It should not contain easily obtained information about yourself, for example your birth date or spouse's name.
- It should not contain words found in the dictionary.
- It should be significantly different from previous passwords.
- It should use a variation of upper and lower case letters, numbers, and symbols.

***Passwords are the first line of defense for your business and for your personal information. With the sophistication of technology, hackers have more tools than ever to help crack unsuspecting users' passwords.***

The following chart, courtesy of skatter.com, shows you how to create a secure password in just 4 easy steps:



## Banks Urged to Participate in Cybersecurity Initiative

The Conference of State Bank Supervisors is asking state bank regulators to help raise awareness among bank CEOs and directors of their important role in the management of cybersecurity risks. CSBS just launched the Executive Leadership of Cybersecurity (ELOC), a two-month initiative to highlight and share fundamental information, best practices and non-technical tools banks can use to get involved in cybersecurity management and to better protect banks from potential cyber-attacks. To learn more about ELOC, visit the CSBS website: [www.csbs.org/cybersecurity](http://www.csbs.org/cybersecurity).



## Investment Adviser Survey on Cybersecurity

The department's Bureau of Securities Licensing, Compliance and Examinations is participating in a nationwide cybersecurity survey to help state regulators understand existing good practices that can help in providing guidance in this area.

The survey, which was developed by the North American Securities Administrators Association, is being sent out by the Bureau to approximately 900 Pennsylvania registered investment advisors. Survey responses are designed to be anonymous in order to encourage candid and prompt responses. Aggregate survey results will provide information about the technology and data processes used by investment advisers, how advisers communicate with their clients, and regulations the advisers follow today. Advisers are being asked to address any cybersecurity threats within the past year, any loss or theft because of a breach in their systems, and document the last time a cybersecurity threat assessment was performed.



## DoBS Receives Governor's Innovation Award

Joe Deklinski, Director of the Governor's Innovation Office (I) and Secretary of Administration Kelly Powell Logan (r) present the Governor's Innovation Award to Secretary Glenn E. Moyer and Executive Deputy Secretary Victoria A. Reider. The award recognizes the department for achieving a total savings of \$2.6 million through the successful merger of the former PA Securities Commission into the former PA Department of Banking.



# client financial services

## Taking the Uncertainty Out of the “IA Switch”

The Office of Client Financial Services (CFS) works to meet the needs of Pennsylvania financial services industries and businesses. CFS area executives work as “relationship managers” for the Department of Banking and Securities. Area executives use a professional, listening, customized and solutions-oriented approach that is based on a regular, proactive calling program.

After having spent the past two years working with banks, credit unions and non-bank lenders and licensees, Client Financial Services (CFS) area executives are turning their attention to working with Pennsylvania investment advisers now under state supervision following implementation of the “IA Switch,” which is part of the federal Dodd-Frank law.

Under the IA Switch, all investment advisers (IA) with Assets Under Management (AUM) of \$100 million or less fall under the supervision of state financial regulators (previously, only advisers with \$25 million or less AUM fell under state supervision). IA firms with AUM greater than \$100 million are supervised by the U.S. Securities and Exchange Commission.

As a result of the IA Switch, 138 IA firms formerly under the supervision of the SEC now fall under the supervision of the department. Ninety-two of these firms are physically located in Pennsylvania. Meetings with CFS executives are intended to ease the transition to a new regulatory environment. For many of these firms, their interaction with the department may have been the first formal interaction they have had with a financial services regulator.



“We are looking forward to working with the IA firms because our meetings with client businesses have always proven valuable – both for them and the department,” said Donna Riling (*left*), the area executive for the western part of Pennsylvania. “The

department gets important feedback on local business environments and top issues facing their industries, and our clients are able to open up important additional lines of communication to their regulator.”

As the CFS executives develop relationships with Pennsylvania investment advisers, they will continue to manage relationships they have developed with banks, credit unions, trusts and owners and management of large non-bank licensees.



“As someone who formerly worked in the private sector, I can understand a bit of apprehension about a visit from someone who works for your regulator,” said Felix Zorrilla (*left*), area executive for the eastern part of Pennsylvania.

*continued >*



“Donna and I are not involved in examinations or investigations. However, we can set the stage for candid, useful and necessary conversations between IA firms and senior leadership of the Department of Banking and Securities.” The IA Switch began in March 2011 and concluded at the end of December 2012. Regional CFS structure and staff responsibilities are broken down as follows:

**Western PA** (Donna Riling): Allegheny, Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Clinton, Crawford, Elk, Erie, Fayette, Forest, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Mifflin, Potter, Somerset, Venango, Warren, Washington, and Westmoreland counties

**Ph.** 412.680.1552 **Em.** [driling@pa.gov](mailto:driling@pa.gov)

**Eastern PA** (Felix Zorrilla): Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Cumberland, Dauphin, Delaware, Juniata, Lackawanna, Lancaster, Lebanon, Lehigh, Luzerne, Lycoming, Monroe, Montgomery, Montour, Northampton, Northumberland, Perry, Philadelphia, Pike, Schuylkill, Snyder, Sullivan, Susquehanna, Tioga, Union, Wayne, Wyoming and York counties

**Ph.** 717.265.6198 **Em.** [fzorrilla@pa.gov](mailto:fzorrilla@pa.gov)

## Debt Settlement Now Requires PA License

On July 9, 2014, Governor Corbett signed into law Act 118 of 2014, the Debt Settlement Services Act (DSSA), which establishes a licensing and regulatory program under the Department of Banking and Securities for companies that engage in debt settlement services. Debt settlement providers that currently do business with Pennsylvania residents must have a completed license application submitted to the department by Dec. 1, 2014, in order to be able to continue to engage in debt settlement services with Pennsylvanians.

The department will be using the NMLS national electronic licensing system for the debt settlement licensing program. Beginning November 1, NMLS will begin to accept license applications under the DSSA. Through NMLS, debt settlement providers will be able to apply for, amend, and renew licenses conveniently and safely online.

The **NMLS Resource Center** provides step-by-step instructions on how to access the system, guides on how to complete the forms, each state's requirements, tutorials, current and future participating states, NMLS alerts, NMLS processing fees and general background information.

Licenses issued under the DSSA are based on a calendar year schedule. A license renewal application shall be submitted to the department via the NMLS by December 31 of each year.

A link to the DSSA may be found on the department's website at [www.dobs.state.pa.us](http://www.dobs.state.pa.us).

For questions relating to applying for your license on NMLS, please contact the NMLS Call Center at (855) 665-7123. If you have other questions, please contact the department's Non-Depository Licensing staff at (717) 787-3717 or by email to [ra-asklicensing@pa.gov](mailto:ra-asklicensing@pa.gov).



## Motor Vehicle Sales Finance Act Repealed and Replaced

When Governor Corbett signed Act 98 of 2013 into law, creating a codified Consumer Credit Code, he completed a “good government” exercise set into motion in 2002 by the General Assembly’s Joint State Government Commission.

The commission convened a subcommittee of interest groups to conduct a thorough review of the Motor Vehicle Sales Finance Act (MVSFA), culminating in a 2006 report whose recommendations were contained in draft legislation for the Consumer Credit Code.

Contained within the Consumer Credit Code is an updated, modernized and consolidated Chapter 62 that governs motor vehicle sales finance. Chapter 62 repeals and replaces the existing MVSFA on Dec.

1, 2014. **Please Note:** this change in law will not alter the upcoming license renewal period that began in September.

Members of the subcommittee that conducted the review of the MVSFA included representatives of the department, the Office of Attorney General, the PA Automotive Association, the PA Independent Automobile Dealers Association, the PA Manufactured Housing Association and the PA Recreation Vehicle and Camping Association.

Questions regarding Chapter 62 of the Consumer Credit Code relating to motor vehicle sales finance should be addressed to Ryan Walsh, Chief, Compliance Office, at (717) 772-3889.



## COMPLIANCE CORNER

The Department of Banking and Securities issued 20 enforcement orders during the third quarter of 2014. Final orders included fines and assessments of \$1,263,100 including:

- Seven Consent Agreements and Orders and two Final Orders issued for violations of the Pennsylvania Securities Act of 1972;
- Three Consent Agreements and Orders issued for violations of the Mortgage Licensing Act;
- Three Consent Agreement and Orders issued for violations of the Motor Vehicle Sales Finance Act;
- Two Consent Agreements and Orders issued for violations of the Consumer Discount Company Act and the Loan Interest and Protection Law;
- One Consent Agreement and Order issued for violations of the Check Casher Licensing Act; and
- One Consent Agreement and Order issued for violations of the Money Transmitter Act.

Additionally, one Consent Agreement and Order was reached under the Department of Banking and Securities Code.

Under these orders, two individuals were permanently barred from the securities industry in Pennsylvania, two investment adviser registrations were revoked, and three licenses were surrendered under Pennsylvania’s consumer lending laws.

Comprehensive lists of enforcement orders administered by the Department of Banking and Securities are available online at [www.dobs.state.pa.us](http://www.dobs.state.pa.us). Consumers, businesses and investors can make inquiries or file a complaint against any company or individual regulated or licensed by the Department of Banking and Securities online or by calling **1-800-PA-BANKS** (800-722-2657).



## Bitcoin Update

The Department of Banking and Securities has received several requests for opinions on whether the Money Transmitter Act (MTA) and the Pennsylvania Securities Act of 1972 (1972 Act) apply to virtual currencies such as Bitcoin. As a general matter, the MTA applies to persons engaged in the business of transmitting money. The MTA does not define the term "money." However, Pennsylvania law defines money generally as "lawful money of the United States," referring to the legal tender

designated by federal law (the Federal Reserve notes and coin that are commonly used). To date, Bitcoin and other virtual currencies have not been designated by federal law as legal tender. Thus, virtual currencies like Bitcoin are not "money," and their transmittal is not subject to the licensing requirements of the MTA. While virtual currencies such as Bitcoin are not currently viewed as "securities" in and of themselves under the 1972 Act, investments in pooled interests of virtual currencies may be securities and subject to registration under the 1972 Act. Questions on the securities aspects of virtual currencies can be referred to Jeffrey Soderstedt at [jsoderstedt@pa.gov](mailto:jsoderstedt@pa.gov).

# RESEARCH QUARTER

## Housing Recovery in Pennsylvania

